



U.S. SENATE BANKING COMMITTEE

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**Statement of Senator Dodd
Hearing on Steven Preston, Nominee to be Secretary of the U.S. Department of Housing
and Urban Development**

Today we are holding a nominations hearing on Steven Preston, who is nominated to become the Secretary of the United States Department of Housing and Urban Development. I want to welcome Mr. Preston and his family.

Mr. Preston currently serves as Administrator of the Small Business Administration, where for the past 2 years, he has focused on a number of challenges including reforming the disaster loan program and increasing employee morale. These efforts will serve him well if he is confirmed, as there are serious challenges facing the Department of Housing and Urban Development.

Before I talk about those challenges, I want to acknowledge that I do have some concerns, Mr. Preston, that you do not have a background in housing or housing finance. While you possess other skills of great importance, I do believe that a working knowledge and background in housing is valuable, especially for the Secretary of HUD, a position of incredible importance, even in normal times.

We, unfortunately, are not in normal times. We are in the midst of the largest housing crisis our country has experienced in at least 75 years, and possibly ever. Millions of families are facing the prospects of losing their homes and their dreams. Millions more are experiencing significant house price depreciation, putting them in the position of owing more on their mortgages than their houses are worth.

Homeowners are seeing the wealth they have built in their homes evaporate before their eyes. According to Martin Feldstein, the Chairman of President Reagan's Council of Economic Advisors, every 10% fall in home prices causes household wealth to decline by \$2 *trillion*, and household spending to fall by \$100 billion.

So, if home prices drop by 10 – 15% this year, as they are expected to, household spending will fall by \$100 to \$150 billion, and household wealth will fall by \$2 to \$3 trillion, this year alone. The problems in the housing market are obviously having a contagion effect throughout the economy.

A HUD Secretary is urgently needed at this time who understands the magnitude of these problems and can effectively act to solve them. A HUD Secretary who will take strong and decisive action to help strengthen the housing market and assist families facing the loss of their homes and the wealth they have worked hard to build up in their homes.

As I said, I do have some concerns about your lack of experience in housing; however, after meeting you personally, and speaking with Senator Kerry who chairs the Small Business Committee, I am hopeful that you have what it takes to begin to address the major challenges at HUD and in the larger housing market.

I want to touch on a few of the challenges you will face if confirmed—these are areas that demand your immediate attention.

First, we need a HUD Secretary who will restore confidence in the Department. Unfortunately, the tenure of Secretary Jackson was plagued by allegations of mismanagement and abuse. There are investigations into a number of allegations of impropriety at the highest levels. This has not only demoralized the staff at HUD, but it has cast a rather large shadow over the entire agency.

HUD plays a critical role in assisting families and communities around the country. Millions of families are in stable housing and safer neighborhoods, and homeownership is a reality for millions more Americans, because of HUD. It is unacceptable for HUD to be undermined by the unethical actions of senior HUD officials.

While Secretary Jackson is gone, the problems he helped to create appear to have remained. Just this weekend, the Washington Post contained rather alarming details about millions of dollars worth of contracts being given to a handful of firms despite staff objections.

This trend, and others at HUD, are disturbing and indicate that taxpayer dollars are being improperly used at the department. We have an obligation to ensure that taxpayer funds are wisely and properly used and that contracts for federal funds are fairly awarded.

If confirmed, you will only be in office a short time. But I urge that your first order of business be to begin to clean up and restore confidence in HUD among employees and the American public.

Second, we need a strong voice for helping families facing foreclosure, which will help stabilize the entire economy. Earlier this week, the Committee voted 19 to 2 to establish a mechanism, through the FHA, that will allow more families to stay in their homes. This is a reasonable and meaningful proposal that will help halt the downward spiral of home prices and foreclosures. Unfortunately, we have not yet secured the Administration's support. I hope that you view this proposal with a fresh set of eyes, and are able to be a strong and effective voice within the Administration for this, and other sensible solutions, to the mortgage crisis.

Third, we need a strong Secretary who will fight for HUD initiatives. The Administration's budgets over the last 7 years have undermined critical housing and community development commitments to working Americans. While we talk about the mortgage crisis these days, there is a second "silent crisis" facing low-income Americans. They struggle every day to afford rising rents while also putting food on the table and paying for needed medical and child care. HUD efforts to address this crisis, such as public housing, housing vouchers, and project-based rental assistance, ensure that millions of Americans, including many children, seniors, and people with disabilities, are able to live in stable and safe housing.

The cuts contained in the budgets have led to significant shortfalls in each of these programs. Public housing operations are only funded at 80 percent of need, and there is a \$2.8 billion shortfall in project-based rental assistance. Low-income families deserve better, and we need a Secretary who will work to fully fund critical housing and community development initiatives.

Mr. Preston, if confirmed you will only have a few short months to take a troubled agency that has sorely lacked in leadership, and make it a more effective tool for meeting the critical housing needs of our country. I look forward to hearing from you today and to working with you to address these challenges.